

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: October 22, 2003
To: Supervisor Richard D. Nyklewicz, Jr., Chairman, Committee on Finance and Audit
From: Director of Audits
Subject: Report on Projected Surplus/Deficit in the Employee Health Benefits Account [File No. 02-503 (a)]

Background

As part of the 2003 Adopted Budget, the Department of Audit was directed "...to provide monthly reports for the first quarter of 2003 and quarterly reports thereafter, unless otherwise determined, regarding the projected surplus/deficit in the employee Health Benefits account." At its meeting January 16, 2003 the Finance and Audit Committee directed the Department of Audit to provide subsequent reports in April, July, October and December. The budget directive was approved as an amendment to the County Executive's Proposed Budget in light of concerns expressed in a joint memo from the County Board Director of Research and the Director of Audits, dated October 17, 2002. That memo, which provided an analysis of the Health Care Cost Reduction Plan included in the proposed 2003 budget, cautioned that monitoring reports of actual health care costs throughout 2003 would be prudent, given the uncertain nature of various assumptions upon which budgeted health care costs are, by necessity, built. Due to sharp increases in expenditures in health care costs since our report in July, the Chairman of the Finance and Audit Committee requested an update in September.

General Account Monitoring

One method of reviewing 2003 health care costs is to measure the expenditures to date in relation to the percentage of total 2002 costs recorded at the same time last year. Using this method in our prior monitoring reports, we noted that figures through June 2003 were tracking almost precisely on budget. However, as reported in our September 11 memo, expenditures through August of \$54.6 million were approximately \$3.5 million more than the amount that would replicate 2002 spending patterns. Updating this information as of October 1, 2003 shows a slight improvement. Specifically, expenditures totaling \$61.3 million were on pace to exceed budget by about \$3 million. Further, preliminary data suggests that the current claims administrator processes and pays claims at a faster rate than its predecessor in 2002. Because of the manner in which the County addresses prior-year accruals for this account, the year-to-date figure for 2003 may overstate actual 2003 expenditures by as much as \$500,000. The actual impact of this issue will not be known until after the end of the current year. It should be noted that this information is preliminary and almost certainly does not represent an exact projection for 2003.

It is important to note that health care costs are not entirely predictable, and one year's pattern or pacing of expenditures may not be replicated in the following year. For instance, to the extent certain high-cost episodes of health care needs arise among covered County employees or retirees in greater proportion than the previous year, County health care costs could experience an unexpected 'spike' such as those experienced in both July and August.

Additional Analysis

In a fiscal status update memo dated September 11, 2003, the Fiscal and Budget Administrator noted, "...It also appears that some discounts that are available through the County's providers have not been achieved." This comment was qualified by the Fiscal and Budget Administrator as preliminary and in need of additional investigation. We have examined data initially reviewed by a health care actuary hired by the Division of Human Resources, and which had led to the impression that discounts may not have been achieved. We obtained additional detail of Milwaukee County health care claims processed by Humana for the period January through August 2003. Based on a limited review of this data, we are satisfied that the County is obtaining all discounts to which it is entitled. Additional analysis is required to isolate the causes of higher than projected health care costs (i.e., increased charges, greater utilization, out-of-network providers, etc.).

However, during our limited review we noted with some concern that charges at one hospital system utilized heavily by County employees were significantly higher than at other local hospital systems. While Milwaukee County is obtaining the discounts to which it is entitled, the higher charges tend to negate what would be substantial savings at competing local hospital systems. The County's focus on discounts, with no control over charges, was noted as a concern in our review of the health care cost containment plan in October 2002.



Jerome J. Heer
Director of Audits

JJH/cah

cc: Finance and Audit Committee Members
Scott Walker, County Executive
Linda Seemeyer, Director, Department of Administrative Services
Terry Kocourek, Fiscal and Budget Administrator, Department of Administrative Services
Charles McDowell, Director, DAS - Human Resources Division
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